

# Mark Scheme (Results)

January 2013

GCE Economics & Business (6EB04/01)

Unit 4B: The Wider Economics Environment and Business

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## Unit 4b: The Wider Economic Environment and Business

### Marking Scheme

Question Number	Question	Mark
<b>1.</b>	What is meant by the term <b>environmental costs</b> ?	
	Answer	Mark
	<p><b>Knowledge up to 2 marks:</b> A valid definition of environmental costs e.g. "The monetary cost from the negative impact or negative externalities on the environment from the choices we make".</p> <p><b>Note:</b> 1 mark for partial or vague definition (but a valid example lifts to 2 marks). Any valid extension or plausible application to the context demonstrating understanding will also gain the 2<sup>nd</sup> mark.</p> <p>e.g. social cost = 1 mark, tautology = zero mark</p>	<b>1-2</b>

Question Number	Question	Marks
<b>2.</b>	What is meant by the term <b>inflation</b> ?	
	Answer	Marks
	<p><b>Knowledge up to 2 marks:</b> A valid definition of inflation e.g. "a sustained rise in the general price level or a fall in the value of money".</p> <p><b>Note:</b> 1 mark for partial or vague definition (but a valid example lifts to 2 marks).</p>	<b>1-2</b>

Question Number	Question	
3.	Explain why the network of rail lines is considered to be a 'natural monopoly' ( <b>additional evidence J</b> ).	
	Answer	Marks
	<p><b>Knowledge 1 mark:</b> A valid definition of natural monopoly e.g. "One firm is the most efficient form of supply". Or implied understanding.</p> <p><b>Application up to 2 marks: Natural monopoly</b> occurs in industries like railways that require a national infrastructure. <b>(1 mark)</b> Fixed costs make up a large proportion of total costs. <b>(1 mark)</b> There are significant opportunities for economies of scale. <b>(1 mark)</b></p> <p><b>Analysis 1 mark:</b> The costs of track and signalling would make the costs of market entry for a competing network prohibitive. <b>(1 mark)</b>. Duplication of resources would be wasteful. <b>(1 mark)</b>.</p> <p>There are other valid approaches and there is no prescriptive response, credit any logical arguments.</p>	<p><b>1</b></p> <p><b>1-2</b></p> <p><b>1</b></p>

Question Number	Question	
4.	Explain <b>one</b> reason why the UK government currently subsidises rail travel.	
	Answer	Mark
	<p>Knowledge 1, Application 2, Analysis 1</p> <p><b>Knowledge/understanding: 1 mark</b> Definition or understanding of subsidy, e.g. additional funds provided to encourage supply OR identification of factor e.g. to reduce inequality.</p> <p><b>Application: up to 2 marks</b> Evidence C suggests current subsidy for national rail is £5.2bn a year. (1 mark). Evidence A highlights that fares are high (1 mark), subsidies encourage rail use (1 mark) reduce environmental cost (1 mark),</p> <p><b>Analysis: 1 mark</b> Without subsidy, UK rail travel could be unaffordable for many (1 mark). Car use (and congestion) would otherwise increase. (1 mark).</p> <p>There are other valid approaches and there is no prescriptive response, credit any logical arguments.</p>	<p><b>1</b></p> <p><b>1-2</b></p> <p><b>1</b></p> <p><b>Total (4 marks)</b></p>

Question Number	Question	
5.	Analyse <b>two</b> possible reasons why UK rail fares are higher than in other European countries.	
	Answer	Mark <i>per reason</i>
	<p>Knowledge 2, Application 4, Analysis 2</p> <p><b>Knowledge: 1 mark</b> per reason (max 2) e.g. lower subsidies (1 mark) higher fixed cost (1 mark) less competition (1 mark) not state owned (1 mark).</p> <p><b>Application: up to 2 marks</b> per reason (max 4). Some reference to the data e.g. Railways have high fixed costs. Industries with high fixed costs need high capacity utilisation. UK Rail is loss making. Number of passengers per train journey kilometre is less. French trains have bigger capacity. Government shifting cost of railways to customers from tax payers.</p> <p><b>Analysis: 1 mark</b> per reason (max 2) French trains have higher capacity, so potential EoS – average costs lower. Empty UK carriages outside rush hour (Ev. C). Regulated UK timetable requires trains to run, even if few passengers off peak. Fragmented system (17 franchisees) lowers efficiency. Fixed cost such as driver's salary is divided by more passengers outside UK, reducing unit cost.</p> <p>There are other valid approaches and there is no prescriptive response, credit any logical arguments.</p>	<p><b>1</b></p> <p><b>1-2</b></p> <p><b>1</b></p> <p><b>Total 4 marks x2 =8 marks</b></p>

Question Number	Question		
6.	Assess <b>two</b> reasons for raising the cap on rail fares to RPI plus 3%.		
Level	Mark <i>per reason</i>	Descriptor	Possible Content
<b>Level 1</b>	1	Candidate shows some knowledge and/or understanding of capping rail fares.	<ul style="list-style-type: none"> <li>• A cap is a price ceiling</li> <li>• RPI is a measure of inflation</li> </ul>
<b>Level 2</b>	2	Application: some relevant awareness in context.	<ul style="list-style-type: none"> <li>• Need to fund HS2.</li> <li>• Running costs should be covered by passengers.</li> <li>• More capacity means higher costs.</li> <li>• Demand is high. Inelastic?</li> </ul>
<b>Level 3</b>	3	<p>Analysis: Valid development in context of the likely economic effects of the increase and/or the mechanisms involved.</p> <p>Reasons/causes/costs and/or consequences are outlined.</p> <p>Either pros or cons could be addressed. <b>Answer will be one-sided</b></p>	<ul style="list-style-type: none"> <li>• Government subsidy must be reduced to help fund the budget deficit</li> <li>• To allow rail companies to fund investment e.g. in HS2</li> <li>• Reduces cost of subsidy to UK taxpayer in terms of opportunity cost e.g. NHS</li> <li>• Rail travel can be considered as a merit good and therefore justifies public investment.</li> </ul>

<p><b>Level 4</b></p>	<p>4-5</p>	<p>Evaluation: Expect to see evaluative points based on analysis of the economics/business situation. <b>Both pros and cons required.</b></p> <p>Answer is coherent, has some balance, is related to the context and makes good use of concepts, theories and/or methods.</p> <p><i>Award 4marks if only one side in context</i></p>	<ul style="list-style-type: none"> <li>• Effectiveness depends upon PED. Evidence indicates rail travel fairly price inelastic, so more revenue likely, though this could change.</li> <li>• May have negative externalities e.g. increased car use.</li> <li>• Commuters already complain about poor value for money, though only affects a minority of the population.</li> <li>• High speed trains stop at few stations, so not all passengers benefit.</li> <li>• Contractionary effect on already depressed economy because of reduced disposable income.</li> <li>• Long distance train travel fell in 2008 (Evidence G), so may be becoming price elastic.</li> </ul>
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**5+5 marks. Cap at 5 if only one reason**



Question Number	Question		
<b>7.(a) QWC i- iii</b>	Assess whether the UK Government should intervene in the awarding of train construction contracts. <b>(20)</b>		
Level	Mark	Descriptor	Possible Content
<b>Level 1</b>	1-3	<p>Candidate shows knowledge of intervention and/or protectionism.</p> <p>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text.</p>	<ul style="list-style-type: none"> <li>Tariffs, embargoes, subsidies, preferential purchasing, administrative barriers etc.</li> </ul>
<b>Level 2</b>	4-6	<p>Some application and knowledge of reasons behind intervention and/or protectionism.</p> <p>The candidate may use some Economics and Business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</p>	<p>Refers to Bombardier/ Siemens.</p> <p>Some understanding of employment impact. e.g.</p> <ul style="list-style-type: none"> <li>Unemployed claim benefits.</li> <li>People in work pay tax.</li> <li>Profitable companies pay tax.</li> <li>Reference to other countries (evidence E).</li> </ul>
<b>Level 3</b>	7-14	<p>Analysis must be present. Valid development in context of the likely economic effects of intervention and/or the mechanisms involved. Reasons/causes/costs and/or consequences. Either pros or cons could be addressed. <b>Answer will be one-sided.</b></p> <p><u>Low level 3: 7 – 8 marks</u> Analysis weak: only one reason/cause/cost or consequence is outlined.</p> <p>Cap at 7 if no context.</p> <p><u>Medium level 3: 9 – 11 marks</u> Analysis is more developed: two of reasons/causes/costs and/or consequences are outlined.</p>	<ul style="list-style-type: none"> <li>Simplistic argument that UK government should intervene (obviously) to protect UK jobs.</li> <li>Failure to intervene may threaten commercial viability due to loss of EoS (so Bombardier may withdraw from UK).</li> <li>Intervention could mean fairer competition (level playing field) because other EU nations</li> </ul>

		<p><u>High Level 3: 12 – 14 marks</u> Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are at least partially developed.</p> <p>The candidate uses Economics and Business terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.</p>	<p>perceived to subvert EU regulation to protect their domestic industry.</p>
<b>Level 4</b>	15-20	<p>Evaluation must be present. Expect to see evaluative points based on analysis of the economics/ business situation. <b>Both pros and cons required.</b></p> <p><u>Low Level 4: 15 – 16 marks</u> Some evaluative points are made, based on analysis of the economy and / or case study information without arriving at a conclusion/ judgement. Only one side in context</p> <p><u>Medium Level 4: 17-18 marks</u> A judgement is attempted with some balance showing the economic consequences. Expect an attempted conclusion.</p> <p><u>High Level 4: 19 – 20 marks</u> Works to convincing evaluation of the consequences of an intervention. Conclusion is clear. At this level, some economic theory is expected e.g. circular flow, macroeconomic change, EoS etc. Possibly making use of MOPS.</p> <p>Candidate uses Economics and Business terminology fluently with good spelling, punctuation and grammar.</p>	<p>On the other hand,</p> <ul style="list-style-type: none"> <li>• Intervention may undermine single market and its benefits to the UK.</li> <li>• Consolidation in the market means we no longer have a UK owned train manufacturer. Siemens also employs in the UK.</li> <li>• Likelihood of retaliation/ EU intervention. Government action limited by EU directives.</li> <li>• May lead to inefficient allocation of resources as Siemens has experience of Train contracts and may offer higher EoS.</li> <li>• UK market is relatively small and Siemens and Bombardier are both global (non UK) players. It may be cheaper/ better to buy from Siemens even after factoring in social cost. Need to get value for money.</li> </ul>

Question Number	Question		
<b>7.(b) QWC i- iii</b>	Evaluate the extent to which HS2 might increase UK economic growth <b>(30)</b>		
Level	Mark	Descriptor	Possible Content
<b>Level 1</b>	1-3	<p>Candidate shows knowledge and understanding.</p> <p>To achieve a mark of 1 – 3 the candidate will have struggled to use Economics and Business terminology legibly with frequent errors in SPG and / or weak style and structure of writing.</p>	<ul style="list-style-type: none"> <li>• Knowledge of economic growth e.g. increasing GDP, employment etc.</li> </ul>
<b>Level 2</b>	4-6	<p>Candidate applies information in evidence to raise points in context.</p> <p>Candidate uses some Economics and Business terms but the style of writing could be better. There will be some errors in SPG. Legibility of the text could have been better in places.</p>	<ul style="list-style-type: none"> <li>• Refers to evidence B and/or F without real development e.g. "It would bring cities closer, enable businesses to operate more productively etc. etc." without explanation.</li> <li>• 400,000 jobs/ £44bn costs</li> </ul>
<b>Level 3</b>	7-16	<p>Analysis must be present. Valid development in context of the likely economic effects of HS2 and/or the mechanisms involved. Reasons/causes/costs and/or consequences. Either pros or cons could be addressed.</p> <p><b>Answer will be one-sided.</b></p> <p><u>Low level 3: 7 – 9 marks</u> Candidate will attempt very basic analysis of the link between HS2 and the economy. One or two reasons/causes/costs and /or consequences are outlined.</p> <p>Cap at 7 for no context.</p> <p><u>Medium level 3: 10 – 12 marks</u> Candidate looks at reasons/causes/costs and/or consequences of HS2 relative to economic growth. Answer will be in context.</p>	<ul style="list-style-type: none"> <li>• More taxation and less benefits as a result of lower unemployment likely to make project partially self-financing because this would increase Government net income and in turn GDP</li> <li>• More consumption from workers because of increased incomes.</li> </ul>

		<p><u>High Level 3: 13 – 16 marks</u>          Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are outlined. e.g. circular flow, multiplier, accelerator etc. Likely to distinguish between long term and short term. Possibly making use of MOPS.</p> <p>Answer will be clearly in context.</p> <p>Answer <b>will be one-sided</b>.</p> <p>The candidate uses Economics and Business terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.</p>	<ul style="list-style-type: none"> <li>• Keynesian argument says spending on public works is appropriate in downturn.</li> <li>• More investment by Government should increase AD.</li> <li>• Access to South East makes exporting (to EU) easier/ cheaper.</li> <li>• Environmental benefits, e.g. displaces domestic air travel and related externalities.</li> </ul>
<p><b>Level 4</b></p>	<p>17-30</p>	<p>Evaluation must be present. Expect to see evaluative points based on analysis of the economics/ business situation.  <b>Both pros and cons required.</b></p> <p><u>Threshold Level 4: 17-18 marks</u>          One limited attempt to evaluate arguments made. Only one side in context</p> <p><u>Low Level 4: 19-21</u>          More than one limited attempt to evaluate arguments made.</p> <p><u>Mid Level 4: 22-24</u>          Detailed evaluation of arguments made, which will be based on a range of sources and/or specification areas</p>	<p>On the other hand,</p> <ul style="list-style-type: none"> <li>• The UK Government will not be able to afford required investment in depressed economy.</li> <li>• Opportunity cost to other public transport/ other government expenditure.</li> <li>• Legal costs of fighting NIMBYs may be high and unproductive.</li> <li>• Parkway stations could result in more car use and congestion, impeding GDP growth.</li> <li>• Video conferencing/ teleworking might displace the need to travel on business in any case.</li> </ul>

	<p><u>High Level 4: 25-30</u> Balanced conclusions and/or recommendations based on sound analysis of the economic situation and case study information.</p> <p>Candidate will make a clear conclusion as to whether the Government should invest in HS2 now. Likely to distinguish between long term and short term. Possibly making use of MOPS.</p> <p>Candidate uses Economics and Business terminology precisely and effectively with good to excellent spelling, punctuation and grammar.</p>	<ul style="list-style-type: none"> <li>• Contractors may not use British labour.</li> <li>• Access to South East also makes importing easier/cheaper via tunnel/ ports potentially displacing domestic production.</li> <li>• Benefits may not be sustained once line built.</li> </ul>
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### Assessment Objectives

Question No.	Knowledge	Application	Analysis	Evaluation	Spec
1	2				4.3.1bb
2	2				4.3.3ba
3	1	2	1		4.3.2ba
4	1	2	1		4.3.1bd
5	2	4	2		Synoptic
6	2	2	2	4	4.3.3bb
7 (a)	3	3	8	6	4.3.4bc
7 (b)	3	3	10	14	4.3.3bb
<b>Total</b>	<b>16</b>	<b>16</b>	<b>24</b>	<b>24</b>	

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